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European Union financial integration, a geography perspective

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European Union financial integration, a geography perspective

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Abstract

During the last thirty years, the financial sectors of the different European Union member states have gradually coalesced toward operating in a single, integrated, European financial space. This paper analyses financial integration by chronicling the process from Jacques Delors' single market project until the recent Capital Markets Union. Drawing on geographical theories of space and scale, the paper collates the large interdisciplinary literature on financial integration with an emphasis on the work of financial geographers. The result is a distinctive geographical perspective on European financial integration intended to inform new rounds of empirical research.

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1. Introduction

Financial integration should be seen as a multidimensional process that takes a group of economies from 'financial autarky' within their respective borders to a single financial market in which *geography has become irrelevant*. [...] If the world were to head for a single financial market, *the concept of a single European financial market would eventually lose its relevance*. (IMF economist Wim Fonteyne, 2007, p. 5, emphasis added).

Henceforth, we should not only speak of a European financial market, but of a *genuine financial space* [...]. Similarly, reinforced monetary coordination on the *scale* of the European Community is *inscribed* in the natural extension of *European financial space*. (European Commission president Jacques Delors, 1992 [1989], p. 155; translated from French, emphasis added).

The above statements about European financial integration express sharply different geographical imaginations (Lee, 2002). First, there is the IMF economist's perspective of space passively waiting to be eradicated by the market. Contrast this with Jacques Delors' narrative, where market making necessitates actively inscribing and producing EU material spaces. For him, transnational markets are social constructions that gain their vitality from their participating actors. Consequently, in Delors' worldview (Ross, 1995, p. 109), Europeanization entails actively 'reorganizing European space' (Delors 1992 [1988], p. 75) as the common market could not exist without deeper social ties between Europeans (Ross, 1995, pp. 120-121). This contrast between spatial imaginations illustrates that the economist view of the world of "angels dancing on heads of pins" (Lee 2002, p. 337) is incomplete and that Delors understood if the European project was to be successful, the deterritorialization that came with the single market always had to be coupled with reterritorialization (Brenner, 2004).

This paper recounts three decades of European financial integration from a financial geography perspective, where the production of space is as central as its eradication. At the start of the Delors Commission in 1985, the European Economic Community (EEC) comprised ten shielded national financial markets¹ and the London based 'Euromarkets' (Mügge, 2006, p. 1005). In the ensuing three decades, these markets gradually coalesced into a new geographic formation, engulfing new member states in the process. Nevertheless, instead of spatial homogenization, financial integration

¹ The EEC member states in 1985 were: Belgium, Denmark, France, (West-)Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom. Portugal and Spain would join on January 1, 1986.

exacerbated uneven development (Hadjimichalis, 2011). In the EU's power centres, this unevenness is often cast as a problem of the "arrow points to defective part" type (Engelen et al., 2011, p. 3). Uneven development allegedly results from insufficient integration rather than an effect of prior policy. This diagnosis is again indicative of an EU elite discourse of Europeanization through eradication of spatial difference, which Jensen and Richardson (2004) describe as 'monotopia'. Likewise, contemporary financial integration proposals such as Banking Union (Howarth & Quaglia, 2016) and Capital Markets Union (Braun et al., 2018) are similarly imbued with monotopia, where more integration through eradicating geographical difference is cast as solution rather than part of the problem.

New challenges for European finance associated with Brexit and the rise of fintech (Cassis & Wójcik, 2018; Hendrikse et al., 2018; Lavery et al., 2018) raise the need to recalibrate, chronicle, and theorize with a richer geographical imagination (Sokol, 2013). In order to chronicle concisely, this paper is selective. It analyses the Europeanization of finance from the EU perspective, without elaborating interdependencies with other scales. Moreover, it brackets the parallel development of monetary integration unless it directly impinges on financial integration. The paper first erects a theoretical framework that integrates perspectives from different disciplines under a financial geography umbrella. The subsequent main section sketches an EU financial integration timeline. For each five to seven year period, major EU policy initiatives and its interplay with the European financial sector are discussed. Afterwards, these findings are briefly corroborated with relevant aggregate statistics provided by the European Central Bank. In the conclusion, the attained overview is re-inserted in wider debates in economic and financial geography.

2. Making EU financial space

Agnew and Corbridge (1995) argue how "mastering space" depends on a mixture of political geographies, geopolitical orders, and the international political economy. Their framework is based on Lefebvre's (1991 [1974]) *production of space*, where the interplay between "spatial practices", "representations of space" and "representational spaces" (Figure 1) is central. Spatial practices refer to the material spaces, circuits, and flows (Hudson, 2004) spun over the face of the earth that constitute economic production and social reproduction. Representations of space refer to how people make sense of spatial practices in language and reflect the geographies of the present that guide our commonsensical understanding of, and behaviour in, the world. Representational spaces are scenarios for future practices: imagined geographies of the future that inspire changes in the representation of space. (Agnew and Corbridge, 1995, p. 7). In Lefebvre's (1991 [1974]) schema, these three dimensions of space continuously influence one another. As capitalism expands, spatial

practices are never fully grasped by their representations of space sparking tensions about continued accumulation. Representational spaces project an image of a future that can stabilize that tension. As the EU integrates, our geographical imagination of what kind of macro-region the EU is co-evolves (Lee, 1976; Taylor, 1991). Representational spaces depicting a more Europeanized future is what political geographers have called building geographies of EUrope (Clark & Jones, 2008). These geographies depict imagined futures (Beckert, 2016) that can act as self-fulfilling prophecies. Once agents believe a certain future will come to pass, they will act according to that future expectation (idem) and contribute to bringing it into being. This is what in economic and financial geography is called “performativity” (see Barnes, 2008 for an introduction).

Figure 1. Mastering space, interpreting Agnew and Corbridge's (1995) Lefebvrian model.

Fligstein (2000) provides an actor perspective on Europeanization that accounts for this performativity of representational spaces. For Fligstein (2000, 26) Europeanization is “how EU political and legal projects have changed the way that people [and firms] within Europe, but outside the Brussels complex, have interacted over time”. This leads to a spiralling interplay between increasing transnationalization of social interactions in the EU and institutionalization of these interactions on the European scale (Stone Sweet et al., 2001). Through transformations in practices, Europe as a lived

experience changes and reaffirms the existence of the EU as a geographical scale (Rovnyi & Bachmann, 2012), regardless whether that is evaluated positively or negatively. We shall see that European financial institutions have at times adjusted their behaviour to expectations raised in EU financial regulation policy cycles (Dixon, 2011; Dymski, 2012; Mügge, 2010). New acts of EU legislation are representations of space that signpost progress towards the representational space of a future EU. Gradually, finance-state interactions are "uploaded" (Mügge, 2010) to the EU scale, engendering a scalar fix (Jonas 1994; Smith 1995). The more institutions become reliant on the scale of the EU, the more it evolves from a space of engagement into a space of dependence, where the necessity to keep the scale stable to avert crises increases (Cox, 1998; Van Meeteren and Bassens, 2016).

The Europeanization of financial regulation is the historical outcome of a search for an "island of stability" (Bassens & Van Meeteren, 2018; Leyshon & Thrift, 1995; Swyngedouw, 2004) in an increasingly turbulent global financial environment. The EU scale has since its inception been a refuge for European nation states when they could no longer stabilize the contradictions of capitalism (Milward, 2000 [1992]). Since the 1970s, nation states particularly sought refuge to shield from, while also craving the benefits of, the increased proliferation of financial capital (French et al., 2011; Sokol, 2013). Creating this island of financial stability entailed keeping the volatility of a financialized global economy outside, and the benefits inside the EU's boundaries (Bassens & Van Meeteren, 2018) .

A scalar fix is never mono-scalar, and the EU is but one scaffold in a scalar division of labour (Brenner 1998). The EU scale itself also has a variable geometry (Strubb, 1996) where EU jurisdiction does not have the same depth in each place. For instance, EU member states outside the Eurozone still have to adhere to Commission directives regarding financial market governance. Arbitrating this legal variable geometry produces its own lucrative financial geographies (Aalbers, 2018; Van Meeteren and Bassens, 2016). Moreover, the EU scale comprises different power centres: the European Commission, the European Council, the European Parliament and comitology procedures determine policy outcomes in interaction (Mamadouh and Van der Wusten, 2008; Quaglia, 2010a). Each of these centres articulates a different balance of power between member-state interests. Additionally, the EU's variable geometry interacts with regional and national institutional differences, while firms, markets and regulations rarely Europeanize in tandem within and across contexts (Aalbers, 2009a). Actors such as the European Central Bank (ECB) (Kalaitzake, 2018), the international Basel-based financial governance committees (Bieri, 2009), and the OECD and IMF (Abdelal, 2007) also impact the scalar division of labour. The result is a territorially variegated pattern (Peck & Theodore, 2007) where the exact combination of spatial effects of the EU scale differ from place to place depending how scales are imbricated in situ (Brenner, 2009). Resultantly, when European financial integration intensifies, instead of homogenization, a changing geography of uneven development is

set in motion interacting with the variegated pre-existing pattern of spatial practices (Hadjimichalis, 1994; Hudson, 2003).

To retain focus in such a complex landscape, this paper reads EU financial integration anchored through the history of European Commission *directives*. A directive is binding regulation for member states but transposition in national law is member state responsibility (McCormick, 2008, p. 73). There is a time lag between directive adoption and the transposition deadline. A directive could be performative as expectations of EU futures might trigger anticipating action by market actors. Analysing the adoption and effects of different generations of financial integration directives is the main tool by which this paper probes the gradual Europeanization of finance.

3. Conjunctures of European financial integration (1986-2017)

Although the period since the 1970s exhibits increasing dominance of finance (French et al. 2011), 'conjunctures' are shorter-term periods that meaningfully subdivide this epoch (Bassens et al., 2013; Engelen et al., 2011; Van Meeteren & Bassens, 2018). Conjunctures are fragile periods where specific financial sector business models align with the macroeconomic and regulatory context. The main financial integration initiatives have tended to follow policy cycles of five to seven years often coinciding with the succession of European Commissions. These define the conjunctures. The paper will chronologically describe five conjunctures: 1985-1992, 1992-2000, 2000-2007, 2007-2012 and 2012-2017. The relevant directives are summarized in Table 1.

3.1. 1985-1992: The '1992' European relaunch

In 1985, Europe's future looked bleak. The 1970s crisis had severely weakened member state economies and strategies to rejuvenate national industrial champions were failing. Moreover, Europe felt left behind by the high-tech innovation coming from California and Japan (Albert & Ball, 1983). The Single European Act (1986) and the completing the internal market project (COM, 1985), commonly called "the 1992 project", were newly-minted Commission president Delors' opening bids to relaunch the EEC, the EU's predecessor (Sandholtz & Zysman, 1989; Sadler, 1992; Van Apeldoorn, 2002), and turn the economic tide. Financial integration was regarded pivotal to the 1992 project. Europeanizing the financial sector had to deliver a significant amount of the projected growth (Cecchini, 1988; cf. Bieling, 2006, Chick & Dow, 2012) and was considered a prerequisite for financing the Europeanization of other sectors (Leyshon & Thrift, 1992; Llewellyn, 1992; Tickell, 1999). Additionally, the industrial policy paradigm was shifting whereby (financial) services were regarded a propulsive growth sector rather than merely auxiliary to (heavy) industry (Illeris, 1989). Lastly, the

1986 London "big bang" (Leyshon & Thrift, 1997) generated awe about the gains of a liberalized, technologically forward-looking financial services sector (Maes, 2007), spawning little big bangs across European financial centres (Moran, 1994).

Table 1. Key financial integration directives 1985-2017

Directive Name	Directive number	Date adopted	Date transposed	Summary of goal/effect
<i>Conjuncture 1. 1985-1992: The "1992" European relaunch</i>				
Capital Markets Directive	88/361/EEC	24/06/1988	01/07/1990	Abolished capital controls and enshrined "freedom of capital"
Second Banking Directive	89/646/EEC	15/12/1989	01/01/1993	Established home country passport principle for banks
Capital Adequacy Directive	89/647/EEC	18/12/1989	01/01/1991	Regulated Basel I solvency requirements
<i>Conjuncture 2. 1992-2000: The roaring nineties and the promise of globalization</i>				
Investment Services Directive	93/22/EEC	10/05/1993	31/12/1995	Established host country passport principle for investment firms
<i>Conjuncture 3. 2000-2007: Europe sinks in the age of market-based banking</i>				
Financial Collateral Directive	2002/47/EC	06/06/2002	27/12/2003	Harmonized regulation on financial collateral arrangements
Prospectus Directive	2003/71/EC	06/02/2002	31/12/2008	Harmonized regulation for financial product prospectuses
Market Abuse Directive	2003/6/EC	28/01/2003	12/10/2004	Regulation of insider trading and market manipulation
Transparency Directive	2004/109/EC	15/12/2004	20/01/2007	Information disclosure requirements for publicly traded entities
Market in Financial Services Directive (MiFID)	2004/39/EC	21/04/2004	30/04/2006	Established home country passport principle for investment firms
Payment Services Directive	2007/64/EC	13/11/2007	01/11/2009	Established the Single European Payments Area (SEPA)
<i>Conjuncture 4. 2007-2012: Financial (dis)integration: The North-Atlantic financial crisis</i>				
Undertakings for collective investment in transferable securities (UCITS)	2009/65/EC	13/09/2009	01/07/2011	Regulates collective and retail investment funds
Capital requirements for financial institutions	2010/76/EU	24/11/2010	31/12/2011	Capital requirement reform
Alternative Investment Fund Directive	2011/61/EU	08/06/2011	22/07/2013	Regulates non-UCITS investment funds
<i>Conjuncture 5. 2012-2017: Business as usual?</i>				
Market in Financial Services Directive II (MiFIDII)	2014/65/EU	15/05/2014	03/09/2018	Increase transparency and investor protection
Revised Payment Services Directive (PSDII)	EU 2015/2366	25/11/2015	13/01/2018	Open banking, financial data sharing, consumer protection

Source: Official Journal of the European Union (<https://eur-lex.europa.eu/oj/direct-access.html>)

The 1988 Capital Markets Directive was the first major development (Directive 88/361/EEC, transposed 1 July 1990). The directive abolished capital controls and put "freedom of capital" on equal footing to the freedoms of persons and goods enshrined in the 1957 Treaty of Rome. In a bid to become a globally relevant financial power, the directive obliged extending capital freedom beyond the EEC to the rest of the world (Abdelal, 2007; Story & Walter, 1997). The 1989 Second Banking Directive (Directive 89/646/EEC, transposed 1 Jan 1993) established the passport principle for European banks (Molyneux, 1989; Underhill, 1997). Passporting allows banks to operate in all member states under home central bank supervision based on common standards. The directive was accompanied by the Capital Adequacy Directive (Directive 89/647/EEC, transposed 1 January 1991) that hard-coded Basel I solvency requirements in European law (Mügge, 2006; Underhill, 1997). In this conjuncture, the run-up to monetary union commenced that culminated in the 1992 Maastricht Treaty. (Dyson & Featherstone, 1999). The prospect of monetary union raised expectations about further future financial integration.

In the early 1980s, member states' financial sectors differed considerably and many financial institutions were lukewarm about Europeanization (Bieling, 2006). A "battle of the systems" (Story & Walter, 1997) ensued about the financial sector model to be favoured in the Commission's proposals. Ultimately, the Commission championed a system where universal banks played a major role. Universal banks combine the full spectrum of banking services, from retail to investment banking (Jabko, 2006). Large universal banks, particularly those from smaller member states with saturated home markets (Molyneux, 1989), became the Commission's allies in furthering financial integration (Tickell, 1999; Jabko, 2006). Nevertheless, European banks remained ambivalent about EU financial integration. Banking systems consolidated nationally on the retail side (Chick & Dow, 2012; Dymski, 2012; Leyshon & Thrift, 1992), while internationalizing in corporate segments such as wholesale banking and securities trading (Larson et al., 2011; Leyshon & Thrift, 1992; Mügge, 2006). Corporate segments were globalizing rapidly and were regarded as crucial to the future of European banks (Begg, 1992; Llewellyn, 1992). Resultantly, a group of national champion universal banks combining national retail foundations with corporate adventures abroad emerged in the early 1990s.

3.2. 1992-2000: The roaring nineties and the promise of globalization

Quickly after the 1992 Maastricht Treaty that heralded monetary union, EUphoria relented. The early 1990s recession, combined with monetary turbulence and the steep costs of German reunification,

gave rise to economic pessimism and an inward focus on immediate national interests (Dicken & Öberg, 1996; Ross, 1995; Maes, 2007, p. 81). Financial integration plans wound down in tandem (Jabko, 2006, p. 85). The remaining major "1992 directive" (the Investment Services Directive 93/22/EEC; transposed 31 December 1995) was a watered-down compromise (Mügge, 2006). Negotiations failed to reconcile the interests of continental universal banks, the London securities industry (Underhill, 1997) and competing stock exchanges (Bieling, 2003). The directive was an ineffective financial integrator as passporting was based on host country supervision (Wójcik et al. 2007), providing member states leeway to erect non-tariff barriers.

In the early 1990s it was unclear how monetary union would be realized. Although 'Maastricht' committed member states to monetary union, it included provisions for a transition period to complete the internal market, navigate the challenges of reunifying Germany, and achieve macroeconomic convergence (Story & Walter, 1997, p. 93). Convergence and monetary union were envisaged to evolve in lockstep on the macro level (Dyson, 2002) and indicators of "economic convergence" have since been used as the prime indicator of how Europeanization is progressing (Bassens et al. 2013). However, how this lockstep translated into concrete political action was not immediately self-evident. As the 1990s progressed, the European Commission and financial regulators were increasingly able to convince the public of an imagined future where the Euro and financial integration seemed a *fait accompli* (Pollard & Sidaway, 2002).

Monetary union comprised three stages. The first, liberating capital controls, was achieved by 1990. The second stage, in 1994, created the European Monetary Institute (EMI), the precursor to the ECB. The EMI monitored the convergence of European economies, becoming allied to the Commission in promoting the integration project (Jabko, 1999). By 2000, the EMI had succeeded in convincing the European central banks to standardize monetary policy techniques (Braun, 2018). At the Madrid Summit, in December 1995, apart from making a membership overture to the post-socialist countries of Central and Eastern Europe, a date was also set for stage 3 of monetary union. By January 1, 1999, exchange rates were to be fixed and the Eurocurrency born (Mügge, 2006).

It is debatable whether monetary integration was a necessary condition for financial integration and vice versa (Sandholtz, 1993). Regardless, such a co-dependence was emphasized to justify the politics of monetary integration (idem, Bieling, 2006; Jabko, 1999). The prospect of a single currency would decrease cross-border transaction costs (Tickell, 1999), increase industrial transnationalization (McCarthy & Dolfsma, 2015), and was expected to culminate in consolidation of financial institutions (Dow, 1994). These expectations fed into a bank merger wave in the late 1990s (Bayoumi, 2017, pp. 37-39; Dymksi, 2012). The privatization bonanza generated by the '1992 process' and the neoliberal *zeitgeist* provided significant investment bank jobs for European universal banks. Privatizations

galvanized European stock markets, which were gearing up for increased competition (Engelen, 2007). As the UK opted out of the Euro, fantasies that other financial centres could compete with London were rife (Beaverstock et al., 2005). Large universal banks used the reinvigorated capital markets for takeovers, preparing to come out on top in what consultants called 'the global end game in banking' (Van Meeteren & Bassens, 2018), resulting in Europeanization through consolidation (Mulder & Westerhuis, 2015). Many West-European banks, particularly those with saturated home markets², started expanding in the "emerging markets" of post-socialist Europe (Smith, 2002), especially where eventual EU membership was anticipated (Jöns, 2001; Karreman, 2009; Lindstrom & Piroška, 2007; Vliegthart & Horn, 2007). Resultantly, East-European banking sectors became predominantly foreign owned (Epstein, 2008). Many takeovers were financed on capital markets (Van Meeteren & Bassens, 2018), stimulating adoption of shareholder capitalism models of corporate governance (Story & Walter, 1997, p. 156; Wójcik, 2002). Meanwhile, galvanized by promises of the 'new economy', this shareholder model was driving an unprecedented stock market frenzy in the United States (Feng et al., 2001). The dotcom boom fed narratives that Europe was (again) 'staying behind' in new rounds of innovation (Bieling, 2003; Power, 2002) which induced many countries to think more favourably about liberalized stock markets (Bieling, 2003, 2006).

The late 1990s conjured a millennial frenzy, where expectations of radically different futures sent stock markets skyrocketing. During this frenzy, the 'second phase' of financial integration was initiated. The Commission, with significant input from large European financial players (Mügge, 2010), concocted the Financial Services Action Plan (FSAP, COM 1999), a blueprint for a new set of directives intending to Europeanize capital markets (Quaglia, 2010a, pp. 34-35). The FSAP was incorporated in the 2000 Lisbon Agenda as the Europeanized capital market had to enable financing a Europe-wide knowledge-based economy (Maes, 2007, p. 104).

3.3. 2000-2007: Europe sinks in the age of market-based banking

Konings (2008) argues that the 2000 dotcom burst is a watershed moment for European finance. Whereas in the 1990s all financial actors seemed to profit from higher economic tides, after the burst it was predominantly "big finance" that recovered. This partial recovery accelerated the decline of second-tier financial centres (Engelen, 2007) and incentivized widespread adoption of "shareholder value" corporate governance (Wójcik, 2006). The period of relative downturn, until about 2003, was the gestation period of the FSAP directives. The directives were perceived as urgent, as slow recovery was attributed to the sluggishness of Europe in adopting new regulations to accommodate the fast-

² The Belgian bank KBC is exemplary for this trend. The bank eventually became a big player in the Czech Republic, Slovakia, Hungary, Poland and Bulgaria.

changing world of finance (Grahl, 2011). Resultantly, the FSAP directives (Table 1) were established under the new Lamfalussy governance procedure (Quaglia, 2010a) which sped up the policy-making process and made it more transparent, but also formalized private-sector influence and rendered the process more technocratic (Maes, 2007; Mügge, 2011; Posner & Véron, 2010).

The FSAP moved beyond mere market opening measures and initiated Europe-wide regulation (Quaglia, 2010b). Key FSAP directives in the early 2000s (particularly MiFID, see Table 1) established home-country control for investment services that transformed European capital markets (Wójcik et al., 2007; Macartney, 2009). In 2006, Basel II regulations were translated in revised banking and capital requirements directives (Quaglia, 2008). In 2007, the Payment Services Directive (2007/64/EC, transposed 1 November 2009) established the Single European Payments Area (SEPA) and international accounting standards were enshrined in European regulation (Perry & Nölke, 2006). Together with clearing initiatives at the ECB, this significantly upgraded the "financial plumbing", clearing and settlement efficiency, of EU finance (Maes, 2007; Quaglia, 2010a).

While some locate the roots of financialization in the 1970s (French et al., 2011), it is in the mid-2000s when many of financialization's quintessential characteristics, such as securitization, the rise of repo markets and derivatives, algorithmic trading and shareholder capitalism, really become transformative. An enormous capital glut, a "wall of money" (Engelen et al. 2011), particularly from large institutional investors such as pension funds, incentivized listed corporations to comply with financial market imperatives (Clark and Wójcik, 2007). The FSAP directives allow use of government bonds as collateral, in "repo agreements", stimulating financial institutions to borrow cash to seek high returns on financial markets (Gabor & Ban, 2015). The resulting infrastructure allows the ECB to transmit monetary policy across the European territory through the inter-bank market (Braun, 2018), contributing to the erosion of "variety in capitalism" (Engelen et al. 2010; Ward et al. 2018) and the distinction between capital- and bank-based financial systems (Hardie & Howarth, 2013). In the new *modus operandi*, the savviest banks engaged in "market-based banking" (*idem*), scouring the world for profit-generating assets to securitize into tradable financial products (Leyshon & Thrift, 2007; Wainwright, 2015) or trade in these securities. Universal banks made record profits (Engelen et al. 2011, p.113) by benefitting from the favourable conditions enshrined in the EU codification of the Basel II treaty after 2004 (Bayoumi, 2017, p. 86). The coinciding bank merger wave was seen as a sign of economic strength (Wigger, 2012). Moreover, bank lending seemed to flow to those places that were relatively underdeveloped, signalling that that convergence was now finally happening (Bassens et al., 2013). According to European Commissioner Charles McCreevy (2004, p. 2), thanks to the FSAP, there now was "incontrovertible evidence, [...] that European markets are beginning to integrate and costs are falling".

McGreevy's sense of progress had its casualties. MiFID enabled "the global stock market" (Wójcik, 2011) because it eliminated legal barriers to financial trade. Resultantly, the deepest markets centralized most trading activity (Wójcik, 2009; 2011), to the detriment of secondary financial sectors (Engelen, 2007; Engelen & Grote, 2009; Fernandez, 2011). Many mid-sized European banks that had benefitted from the 1990s financial integration could not keep up and lost the "end game" of the bank merger wave (Van Meeteren and Bassens, 2018; see also Mügge, 2010). By 2007, there were 12 megabanks in the Eurozone accounting for the entire increase in assets of the early 2000s (Bayoumi, 2017, p.39, p. 88). The success of finance dwarfed other goals of the Lisbon agenda, culminating in a financialized rather than a knowledge-based European economy (Birch & Mykhenko, 2014). Nevertheless, difference in Europe persisted. The new member states had not participated in the policy process (Vliegthart and Horn, 2007; Quaglia, 2010a) and their financial sectors had fallen prey to majorities of foreign owners. Geographies of banking practices (Hardie and Howarth, 2013) and mortgages (Aalbers, 2009a) remained differentiated across the continent. Particularly in the relative economic periphery (e.g. Italy and Greece), established conservative banking practices such as dependence on government bonds remained common practice (Pagoulatos & Quaglia, 2013).

3.4. 2007-2012: Financial (dis)integration: The North-Atlantic financial crisis

From the EU perspective, the North-Atlantic financial crisis (Jessop, 2015) has two distinct phases demarcated by the fall of Lehman Brothers in September 2008 (Bassens et al., 2013, p. 2409). The crisis originated in summer 2007, when the US subprime mortgage market melted down (Aalbers, 2009b), resulting in a run on the repo and the securitization-fuelled shadow banking system (Thiemann, 2014). In August 2007, three of BNP Paribas' investment funds terminated redemptions, signalling the start of crisis transmission to Europe (Engelen, 2012). The big universal banks, such as BNP Paribas, Société Générale, Nataxis but also smaller German regional banks (Hendrikse, 2015; Howarth & Quaglia, 2016) had toxic US mortgages on their balance sheets, acquired in the boom years, triggering obligations they could no longer meet (Bayoumi, 2017; Fligstein & Habinek, 2014; Jones et al., 2016). As bank supervision was not Europeanized, resolving failures was a member state affair (Howarth & Quaglia, 2016). After Lehman Brothers, the interbank market froze, prohibiting the short-term refinancing of debt. European convergence indicators started failing (Bassens et al., 2013, see also Figure 2), thus pushing more banks and governments into insolvency. Lenders lost faith in the cracking narrative of a European financial space and began acting as if the EU was merely a loose association of states (idem). This development culminated in a 'deadly embrace' (De Grauwe, 2013; Epstein & Rhodes, 2016) between banks and sovereigns, where downgrades of government bonds recursively triggered new bank failures. The weaker Southern European economies bore the gravest

consequences (Lapavistas et al., 2012). Negotiations around subsequent European and IMF bailouts in Greece (April 2010, July 2011), Ireland (November 2010), Portugal, (May 2011), Spain (June 2012), and Cyprus (June 2012) (Howarth & Quaglia, 2016) formed the backdrop of a frantic European search to reverse the performative narrative of a failing Europe within the margins of its established political power structure.

Given the substantial role of Northern European banks in the genesis and transmission of the crisis, the imaginary guiding the crisis resolution, is remarkable and arguably complacent and false (Engelen et al., 2011; Engelen, 2012). In efforts at resolution, the crisis has consistently been presented as typical to "Anglo-American capitalism" exported like a "cancer" to Europe (Bieling, 2014; Engelen, 2012). This was bad capitalism supposedly kept outside the European "island of stability" (Bassens & Van Meeteren, 2019). Post-crisis reform therefore focused on building "a wall around Europe" (Pagliari, 2013). Before that wall could be erected, bailouts produced distinctive governance crises unforeseen in the European treaties (Mamadouh & Van der Wusten, 2013). Jones et al. (2016) label this a "failing forward" period, where member states' reluctance to Europeanize resulted in crippled policies entailing draconic consequences for the member states subject to them. Haggling between member states each wanting to minimize individual exposure to the crisis produced a temporary (May 2010) and eventually permanent (Dec 2012) 500 billion European Stability Mechanism (ESM). However, drawing on this ECB-monitored battle chest came with very thorny strings attached (Epstein & Rhodes, 2016). The ESM was coupled with new series of regulations, the "six pack" (Sep 2010), the "two pack" (Nov 2011) and the "fiscal compact" (March 2012), which progressively raised member state budgetary requirements and were increasingly punitive toward those failing to meet them (Schmidt, 2015). All these policies would allegedly fix the broken part and jumpstart convergence as represented in borrowing and bond yields, despite the widely diverging social costs across the European continent (Lapavistas et al., 2012; Varoufakis, 2016).

Regarding re-regulating finance, the crisis initially spawned bold regulatory proposals, particularly when addressing the putative Anglo-American practices the crisis was blamed on. For a while, more prudential, less free market-oriented policy proposals were considered (Quaglia, 2012a). In 2009, regulations governing credit rating agencies, deposit guarantees and alternative investment funds were proposed (the UCITS Directive 2009/65/EC, transposed 1 July 2011, see Quaglia, 2012b; Dörry, 2015), although the Alternative Investment Fund Directive was only adopted in 2011 and fully transposed by 22 July 2013 (Directive 2011/61/EU). The priority given to constrain activities of hedge funds in this directive was remarkable. While hedge funds were portrayed as the Anglo-American "locusts" in the European financial space (Engelen, 2012) and were blamed for the downfall of proud European national champions such as ABN AMRO (Van Meeteren & Bassens, 2018), hedge funds had

played no role in the financial crisis (Quaglia, 2011). Like the Lamfalussy expert group a decade earlier, the De Larosière (2009) expert group produced a European financial governance overhaul report (Spendzharova, 2012). The eventual De Larosière regulations (see Quaglia, 2012b) encompassed regulation on derivatives (Regulation 648/2012) and strengthened capital requirements for financial institutions (Directive 2010/76/EU, transposed by 31 December 2011). Nevertheless, many proposed banking supervision regulations remained long in limbo (Jones, 2015).

Despite this flurry of regulatory activity, entropy of European financial space continued. Quaglia et al. (2016) report that between 2005 and 2011 cross-border bondholding fell from 40% to 33%, disturbing transmission of monetary policy. The future of large (investment) banks seemed clouded (Wójcik, 2012; Wójcik & MacDonald-Korth, 2015). Moreover, new rounds of sovereign bankruptcies were by now threatening Italy and Eurozone integrity (Mamadouh & Van der Wusten, 2013). In order to buy time, incoming ECB president Mario Draghi announced on 26 July 2012 (Draghi, 2012) that "the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough". In practice, this meant creating a trillion euros and lending them to banks in exchange for troubled collateral from their books (Jones, 2015; Varoufakis, 2015). This trillion-euro gesture immediately reinstated the representational space of an enduring Europe, and as Jones (2015, p. 44) claims, quietly dissolved the sense of urgency to build new crisis-resistant institutions.

3.5. 2012-2017: Business as usual? A preliminary analysis of recent events

The current conjuncture's policy cycle is still ongoing and it is therefore impossible to tell how the European financial space will react to current policy initiatives. We can, however, interrogate the 2012-2017 conjuncture's key representational space: "financial union". According to Epstein and Rhodes (2018), financial union will transform European economic *governance* in European economic *government*. Financial union is the outcome of the *Five Presidents Report* (Juncker, 2015) and the *Four Presidents Report* (Van Rompuy, 2012) (see Howarth & Quaglia, 2016, p. 201), which promises that, this time, Europe will move towards a '*genuine* economic and monetary union' (title of Van Rompuy, 2012, emphasis added). The Juncker Commission spearheads financial union, which integrates the continuing struggle about banking union with an FSAP-style initiative called Capital Markets Union (CMU) (Epstein & Rhodes, 2018). Juncker is a veteran of eurocrisis politics (Holmes, 2014) and as former prime minister of Luxemburg, a main beneficiary of a dominant financial sector, optimistically predisposed toward finance's role in renewing European integration (Dörny 2016; Quaglia et al., 2016).

Similar to the FSAP in 1999, optimism generated by the return to normal after the Draghi intervention seems to have invigorated financial lobbying (Engelen & Glasmacher, 2018; see Braun et

al. 2018, for overview), including renewed calls for lenience toward securitization (idem, Fernandez & Aalbers, 2017). Recent directives, MiFID2 (Directive 2014/65/EU, fully transposed 3 September 2018) and PSD2 (Directive EU 2015/2366, transposed 13 January 2018) enable further digitization and platformization of financial services (FinTech). These directives have the potential to change the European financial landscape, but the precise effects on market-based banking and the EU financial sector are still uncertain (Hendrikse et al., 2018). Meanwhile, the boldest of all post-crisis proposals, the financial transaction tax, has been dying a slow death (Gabor, 2016; Kalaitzake, 2017). ECB opposition hastens the death, as the tax would endanger the transmission of monetary policy, which reversed European entropy after Draghi started pumping liquidity into the system (Braun, 2018). The same jubilant representation of space that guided "1992", the Euro and the FSAP, which portrays financial integration as the only available medicine to the illness of alleged economic backwardness is back, projecting a financialized future.

4. Summary: Relating directives to spatial practice

Since 1995, the EMI and ECB collect "price based" and "quantity based" statistics measuring convergence in Eurozone financial markets. Price-based indicators measure price convergence in member states' money, bonds, equity and banking market segments. Quantity based statistics measure (since 1999) the increase in cross-border transactions. Although these statistics have their qualifications (ECB, 2017 provides extensive information), they allow for summarizing this paper's argument. Figure 2 shows the degree of convergence of three different indicators, with a score of 1 meaning a full convergence. We use the composite price and quantity statistics based on all four indicators and the equity market price indicator. The vertical lines indicate shocks (red), other events (green), and directives and their transposition periods (blue). The indicators depict whether spatial practices of financial actors have Europeanized. The shocks, events, and directives compose a discursive landscape in which these spatial practices occur.

Figure 2 underlines the gradual EU financial integration chronicled above. Whereas prices on banking, bond and money markets were converging by the millennium, equity prices remained volatile. Equity prices diverge after the dotcom crash and they only start moving in lockstep with the other indicators after the FSAP directives. The volume indicator only starts to converge, first downward then upward, after the collapse of Lehman Brothers when the EU increasingly interferes in bond markets. These observations indicate that European directives, that is laws, have been consequential for shaping EU financial market geographies (Christophers, 2015). Although these consequences occur with a time lag as crisis and volatility followed the new policy packages. Policy proposals, such as the FSAP, are products of specific conjunctures, but implementation and policy effects only become fully apparent

after that conjuncture has passed. By the time the FSAP directives became law, the context had radically changed, fuelling financial bubbles that were unanticipated in the 1990s.

Figure 2. ECB key indicators of financial integration and key events 1995-2016³

5. Conclusion

Delors (1992 [1989], p. 155) once said that the "scale of the European Community is inscribed in the natural extension of European financial space", underlining the EU elite's belief how Europeanization is underpinned by an intertwined financial geography of Europe-wide transactions. This paper's prime purpose was to collate the large but disparate interdisciplinary literature on how that European space came to be. An enduring seductive geography of a financially integrated EU, strong enough to be an innovative yet sturdy island of stability, emerges. This imagined future (Beckert, 2016) induces firms to plan mergers and adapt their spatial practices foreseeing change towards this utopia. Anticipating the Euro and the effects of the Draghi's speech are examples of such performativity. Each new round of European financial integration supposedly "shaved away" another layer of geographical difference until the "genuine" EUropean teleological outcome is finally achieved (cf. Matthijs & Blyth, 2015). Yet beneath this homogenizing discourse, unintended consequences occur as the EU-level developments interact with other domains. For instance, the FSAP did not lead to a European Silicon Valley-style

³ Source: https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/financial_integration/html/index.en.html

capital market but to consolidation of big European banks. Nevertheless, because the FSAP led to more financial integration it was still considered a success, rendering the completely different causal mechanisms that led to this success invisible. A discursive advantage is that the Silicon Valley style capital market desire could be recycled when negotiating Capital Markets Union (Engelen & Glasmacher, 2018), perpetuating the teleological narrative.

These examples of interaction effects involving EU financial integration illustrate the purpose of this paper as building block for further research. The EU scale is one element in a varied geographical landscape in which capital is articulated in the concrete (Pickles and Smith, 2016). As the economic-geographical research agenda reconnects to the theme of uneven development amidst macro-regional integration (Peck, 2016), better understanding the salient case of the EU is crucial. By organizing the rich literature on financial integration in a common geographical framework, it is hoped that this scale is less elusive for researchers pushing that crucial research agenda.

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